F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 02/02/12
SPONSOR HTRC **LAST UPDATED** 02/14/12 **HB** 177/HTRCS

SHORT TITLE Energy Efficient Home Purchase Tax Credit **SB**

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	**FY14**	**FY15**		
(2,100.0)	(2,200.0)	(2,240.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
TRD

SUMMARY

Synopsis of Bill

House Taxation and Revenue Committee Substitute for HB 177 adds a section to the Income Tax Act, which provides a refundable tax credit for the owner of an eligible energy efficient home. The amount of the credit is $4,000, $6,000 or $8,000, based upon the home energy rating system (HERS) certification level achieved by the home. The section contains language setting forth eligibility requirements for claiming this credit.

Rating System Certification Level and its corresponding Tax Credit:
- HERS index of 60 or less, but more than 25: $4,000
- HERS index of 25 or less, but more than 0: $6,000
- HERS index of 0 or less: $8,000

The Rating System Certification Level and its corresponding Tax Credit for renovated foreclosures:
- 50% or more energy reduction, but less than 75% energy reduction: $4,000
- 75% or more energy reduction, but less than 100% energy reduction: $6,000
- 100% energy reduction: $8,000

The annual aggregate credit amount is capped at $10 million.

Effective Date: July 1, 2012; Applicable to taxable years beginning on or after January 1, 2012 but not after December 31, 2014.

FISCAL IMPLICATIONS

Proponents of this bill have argued that the induced impacts of the bill would pay for or ameliorate the cost of the new credit. By rule the consensus revenue estimating group does not in clued multiplier effects when scoring FIRs

The bill would allow taxpayers to claim both the sustainable building tax credit and the energy efficient home income tax credit for the same property. The estimated revenue impact assumes that all taxpayers who are able to will claim both credits. TRD also assumes that approximately 250 claims will come from homes otherwise qualifying for the Sustainable Building Tax Credit, that 100 claims on the new credit will come from the renovation of foreclosed properties that would have been purchased anyway, and also that twenty-five percent of the taxpayers who otherwise would have only claimed the energy efficient home income tax credit will be motivated to claim the sustainable building credit as well. This increases the estimated revenue impact substantially.

Of the projected claims, the analysis further assumes that 70 percent will qualify as at most HERS 60, 20 percent will qualify as at most HERS 25, and 10 percent will qualify as at most HERS 0. At $4000, $6000 and $8000 per credit respectively, this would result in a total payout of over $1.7 million annually until FY2015. Additional claims for the Sustainable Building Tax Credit are estimated at $415 thousand annually. It should be noted, however, that these estimates are subject to some large downside risk: if another housing market bubble were to occur in the time span of this credit, the impact could conceivably reach the $10 million cap.

The average claim under the sustainable building tax credit was $5,500 based on 2010 tax return data. A detailed analysis of current sustainable building tax credit claims on personal income tax, however, suggests that almost 40 percent of taxpayers are claiming this credit for manufactured homes, a type of building not covered by this bill; this drives down the amount of the average credit considerably even though the credit for constructed homes can be quite substantial. In fact, this analysis suggests that of the remaining credits claimed on constructed housing, a large majority qualify as LEED-Gold or LEED-Platinum homes which yield an average credit of $16,400 and $21,500 respectively.

ADMINISTRATIVE IMPLICATIONS

Small

TECHNICAL ISSUES

TRD notes the following:

- Page 4, subsection H, - the bill requires that the income tax credit is available for the tax year the home is purchased, however, on Page 2, subsection E, it states, in part, that the taxpayer may apply for a certificate of eligibility after the construction or renovation of the eligible home is completed. The issue arises when a taxpayer purchases a foreclosed home late in one taxable year; if renovations are not completed until the next taxable year, the taxpayer would miss out on the credit. Subsection H should probably add language such as “for the taxable year in which the eligible energy efficient home is purchased or the taxable year the renovations are completed on a home purchased in the previous year.”

- On page 4, lines 3-4, the phrase “periodic basis” should be defined.

- This bill would sets a less stringent requirement for the first tier of the tax credit for newly constructed homes than the requirement for renovated foreclosures under the alternative rating system. The requiring only a HERS index of 60, but the first tier for renovated foreclosures under an alternative rating system would require a 50% reduction in energy use. Unless the rating systems are vastly dissimilar, the first tier for renovated foreclosures should be set at 40% energy reduction, which corresponds to a HERS index of 60.

- This bill would allow the use of an energy efficiency index different from the HERS index when determining the eligibility of renovated foreclosed homes for the credit. The question could be asked why this alternative index is appropriate for foreclosures but not for newly constructed homes. Allowing different types of homes to qualify for the credit under different standards could foster an argument about equity.

OTHER SUBSTANTIVE ISSUES

This bill may be counter to the LFC tax policy principle of adequacy. According to the LFC staff General Fund Recurring Appropriation Outlook for FY14 and FY15, December 2011 forecasted revenues will be insufficient to cover growing recurring appropriations.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

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